

## Message Text

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ACTION EB-07

INFO OCT-01 NEA-10 ISO-00 FEA-01 AGR-10 CEA-01 CIAE-00

COME-00 DODE-00 FRB-01 H-02 INR-07 INT-05 L-03 LAB-04

NSAE-00 NSC-05 PA-02 AID-05 CIEP-02 SS-15 STR-04

TAR-01 TRSE-00 USIA-15 PRS-01 SP-02 OMB-01 OPIC-06

EUR-12 /123 W

----- 036415

R 011015Z AUG 75

FM AMEMBASSY ISLAMABAD

TO SECSTATE WASHDC 1357

INFO AMCONSUL KARACHI

AMCONSUL LAHORE

UNCLAS ISLAMABAD 7060

E.O. 11652: N/A

TAGS: EIND, EINV, PK

SUBJ: FOREIGN INVESTMENT CLIMATE AND STATISTICS

REF: (A) STATE 165596 (B) ISLAMABAD 5949 (C) ISLAMABAD A-114  
JULY 12, 1974 (D) ISLAMABAD 8272, AUG 28, 1974

1. THE FOLLOWING STATEMENT ON THE INVESTMENT CLIMATE IN  
PAKISTAN WAS PREPARED WITH THE COOPERATION OF THE  
CONSULATES GENERAL IN KARACHI AND LAHORE.

2. BEGIN NARRATIVE STATEMENT: PAKISTAN HAD A DIFFICULT  
YEAR IN 1974/75, WITH GNP GROWTH TRAILING POPULATION  
INCREASE, INFLATION EXCEEDING 20 PERCENT, AND A SPECTACULAR  
DETERIORATION IN THE TRADE BALANCE. INVESTMENT GREW SUB-  
STANTIALLY, HOWEVER, ESPECIALLY IN THE PUBLIC SECTOR.

3. THE GOP STATES THAT IT ENCOURAGES DOMESTIC AND  
FOREIGN PRIVATE INVESTMENT, BUT IT REMAINS SOMEWHAT  
MISTRUSTFUL OF LARGE BUSINESS ENTERPRISES AND APPEARS  
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OPPOSED TO EXCESSIVE PROFIT MARGINS. POLICY STATEMENTS

SINCE OCTOBER 1974 INDICATE GREATER GOP SENSITIVITY TO THE NEEDS OF THE PRIVATE SECTOR, BUT THE ANTI-BUSINESS REPUTATION THIS GOVERNMENT ACQUIRED DURING ITS EARLY YEARS PERSISTS. TO SOME DEGREE.

4. CERTAIN BASIC INDUSTRIES ARE PRIMARILY RESERVED FOR THE PUBLIC SECTOR (IRON AND STEEL, BASIC METALS, HEAVY ENGINEERING, HEAVY ELECTRICAL INDUSTRIES, AUTOMOTIVE INDUSTRIES, HEAVY AND BASIC CHEMICALS, PETROCHEMICALS, CEMENT, PUBLIC UTILITIES AND BANKING). OTHER FIELDS ARE PREDOMINANTLY PRIVATE. INDUSTRIES USING LOCAL RAW MATERIALS OR EQUIPMENT OR WHICH EXPORT ARE PREFERRED. THE GOVERNMENT EXPECTS FOREIGN INVESTMENTS TO PROVE THAT THEY CAN BRING IN SOME INGREDIENT NOT AVAILABLE IN PAKISTAN, SUCH AS SUBSTANTIAL CAPITAL, SOPHISTICATED TECHNOLOGY OR A NEW EXPORT MARKET. THERE ARE TAX INCENTIVES FOR LOCATING IN BACKWARD AREAS. WAGE RATES ARE LOW, BUT LOW PRODUCTIVITY IS A MATTER OF CONCERN.

5. FOREIGN INVESTMENTS REQUIRE GOVERNMENT APPROVAL FOR VIRTUALLY ALL ASPECTS OF THEIR OPERATIONS (E.G., PRICING, EXPORT AND IMPORT AUTHORIZATION, MARKETING FACILITIES, REMITTANCES AND SOMETIMES EVEN PROFIT MARGIN). THIS INVOLVES FREQUENT AND LENGTHY NEGOTIATIONS WITH THE GOVERNMENT. LOCAL PARTICIPATION IS ENCOURAGED. REPATRIATION, OF PROFITS, FEES AND CAPITAL USUALLY TAKES PLACE WITHOUT DIFFICULTY. THE LARGER FOREIGN INVESTORS COMPLAIN OF LOW PROFITABILITY. OF THE FIRMS NATIONALIZED BY THE GOP ALMOST ALL HAVE BEEN DOMESTIC, ONLY ONE WAS US-OWNED AND COMPENSATION WAS PAID. THE GOP STATES THAT NO FURTHER NATIONALIZATIONS WILL BE MADE FOR THE PRESENT.

6. PAKISTAN AND THE US ARE BOUND BY A TREATY OF FRIENDSHIP, COMMERCE AND NAVIGATION AND A CONVENTION FOR THE AVOIDANCE OF DOUBLE TAXATION. AMERICAN INVESTORS ARE ELIGIBLE TO APPLY FOR OPIC INSURANCE. PAKISTAN ACCORDS US CITIZENS NATIONAL TREATMENT IN PATENT AND TRADEMARK MATTERS.

7. FOREIGN EQUITY INVESTMENT IN PAKISTAN AMOUNTS TO ABOUT \$230 MILLION OF WHICH THE US HOLDS SOME \$70 MILLION AND UNCLASSIFIED

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THE UK ABOUT \$130 MILLION. THE BULK OF EXISTING FOREIGN INVESTMENTS IS IN PETROLEUM AND FERTILIZER. ONLY MINIMAL NEW FOREIGN INVESTMENT HAS COME IN DURING THE PAST FEW YEARS, THOUGH COMPANIES ALREADY HERE HAVE RECENTLY SHOWN SOME INTEREST IN EXPANDING.

8. INVESTMENT STATISTICS REQUESTED ARE AS FOLLOWS:  
A. US DIRECT INVESTMENT AT END OF 1974 (APPROXIMATE

BOOK VALUE) -

TOTAL	\$70 MILLION
MINING AND SMELTING	NONE
PETROLEUM	\$18.5 MILLION
MANUFACTURING	\$6 MILLION
OTHER INDUSTRIES	45.5 MILLION
(OF WHICH: FERTILIZER \$28 MILLION)	

B. DIRECT INVESTMENT BY ALL COUNTRIES AT END OF 1974

(APPROXIMATE BOOK VALUE) -

TOTAL, INCLUDING US	\$230 MILLION
OTHER COUNTRIES -	
UK	\$130 MILLION
GERMANY	\$ 20 MILLION
SWITZERLAND	\$ 5 MILLION

C. DIRECT INVESTMENT IN THE US BY PAKISTAN AT END OF 1974 - NONE KNOWN.

9. WASHINGTON END-USERS MAY FIND ADDITIONAL USEFUL INFORMATION IN REFTEL B, WHICH DISCUSSES IN GREATER DEPTH IMPACT OF RECENT BUDGET ON FOREIGN INVESTMENT CLIMATE, AND REFS C AND D, WHICH DESCRIBE IN MORE DETAIL OFFICIAL STATEMENTS OF GOP POLICY.  
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